

Idaho Economic Forecast

The following tables and text are taken from the
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EXECUTIVE SUMMARY

Idaho's economy should end this decade on a higher note than when it started it. Battered by the high-tech industry's implosion near the turn of the millennium, Idaho nonfarm employment grew an average of 1.8% per year from 1999 through 2004, which was well below the average for the previous five years. While Idaho real personal income did not retreat during this decade's first five years, it did slow considerably. The one noticeable exception came in 2004 when, aided by a strong farm sector, real Idaho personal income jumped 7.0%. Driven by its construction and services sectors, Idaho's economy picked up speed in 2005. The construction sector received the most attention due to its stellar performance. With construction experiencing such strong growth, the services category's fine performance was often overlooked. Services employment advanced "just" 4.4% in 2006. However, given this sector's huge base, services employment increased by 11,723 jobs, which is more than two times greater than the construction sector gain. It is also worth noting both the state's logging and wood products and mining sectors expanded in 2005. Idaho real personal income grew 3.6% in 2005. Early indicators suggest the economy grew faster in 2006 than in 2005. Idaho nonfarm employment is estimated to have increased 4.3%, which is slightly faster than the previous year's 4.0% rate. The strong employment gains pushed total wage and salary payments up 10.2% in 2006, which helped Idaho real personal income swell 5.8%. Looking ahead, Idaho nonfarm employment is forecast to advance 2.5% annually, which is much faster than it grew earlier this decade. Idaho real personal income should also end the decade stronger than when it started it. It is projected to increase 4.8% per year, which is higher than the 3.4% annual rate from 1999 through 2004.

If the U.S. economy were graded on its recent performance, its report card would state that while it may not be failing, it could be doing better. The economy shifted into lower gear in the second half of last year, with real GDP advancing at a meager 2.6% annual rate in the second quarter followed by 2.0% in the third quarter and an estimated 1.2% rate in the last quarter. Real output should begin to accelerate this year, but at less than 3.0% growth it will remain well below its potential. The cooling housing market is partially to blame for this sub-par performance. The impacts of the housing decline will be partially deflected by other economic factors. Nonresidential construction will soften the blow from falling housing starts this year, but it will only provide temporary relief. Eventually, it will weaken under the weight of the ebbing housing sector. Falling oil prices should also help. The roughly 80-cent per gallon decline in gasoline prices since the summer of 2006 has operated like a tax cut for households worth \$96 billion, or 1.0% of disposable income. Another positive factor is trade. Improving economic growth abroad and the declining dollar point to strong exports. Inflation has probably topped out, but it is still too high for the Federal Reserve's comfort. Even so, the Federal Reserve is expected to lower interest rates three times in 2007, so its federal funds rate is 4.5% by the end of this year. After this year, the economy is expected to move up to its potential. Real GDP should advance by at least 3.0% in each year after 2007. Nonfarm employment growth is expected to march to a 1.4% average annual cadence. At this pace, the civilian unemployment rate will eventually fall to 4.4% by 2010, which is comfortably full employment.

**IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2007**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP (BILLIONS)												
Current \$	9,268	9,817	10,128	10,470	10,961	11,712	12,456	13,237	13,789	14,497	15,285	16,103
% Ch	6.0%	5.9%	3.2%	3.4%	4.7%	6.9%	6.3%	6.3%	4.2%	5.1%	5.4%	5.4%
2000 Chain-Weighted	9,470	9,817	9,891	10,049	10,301	10,704	11,049	11,410	11,659	12,028	12,441	12,854
% Ch	4.4%	3.7%	0.8%	1.6%	2.5%	3.9%	3.2%	3.3%	2.2%	3.2%	3.4%	3.3%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	29,068	31,290	33,054	33,849	34,687	38,090	40,584	44,147	47,361	50,216	53,509	57,370
% Ch	6.5%	7.6%	5.6%	2.4%	2.5%	9.8%	6.5%	8.8%	7.3%	6.0%	6.6%	7.2%
Idaho Nonfarm (Millions)	28,054	30,448	32,039	32,921	33,969	36,942	39,589	43,121	46,303	49,140	52,419	56,267
% Ch	6.5%	8.5%	5.2%	2.8%	3.2%	8.8%	7.2%	8.9%	7.4%	6.1%	6.7%	7.3%
U.S. (Billions)	7,802	8,430	8,724	8,882	9,164	9,731	10,239	10,898	11,432	12,040	12,775	13,550
% Ch	5.1%	8.0%	3.5%	1.8%	3.2%	6.2%	5.2%	6.4%	4.9%	5.3%	6.1%	6.1%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	29,788	31,289	32,376	32,690	32,847	35,143	36,397	38,522	40,599	42,215	44,135	46,444
% Ch	4.8%	5.0%	3.5%	1.0%	0.5%	7.0%	3.6%	5.8%	5.4%	4.0%	4.5%	5.2%
Idaho Nonfarm (Millions)	28,748	30,447	31,382	31,795	32,167	34,083	35,504	37,627	39,692	41,311	43,235	45,551
% Ch	4.7%	5.9%	3.1%	1.3%	1.2%	6.0%	4.2%	6.0%	5.5%	4.1%	4.7%	5.4%
U.S. (Billions)	7,996	8,429	8,545	8,578	8,678	8,979	9,183	9,510	9,800	10,122	10,537	10,969
% Ch	3.4%	5.4%	1.4%	0.4%	1.2%	3.5%	2.3%	3.6%	3.1%	3.3%	4.1%	4.1%
HOUSING STARTS												
Idaho	10,334	11,468	12,184	13,200	16,305	18,486	23,163	20,813	20,071	19,764	19,567	20,195
% Ch	2.3%	11.0%	6.2%	8.3%	23.5%	13.4%	25.3%	-10.1%	-3.6%	-1.5%	-1.0%	3.2%
U.S. (Millions)	1,647	1,573	1,601	1,710	1,854	1,950	2,073	1,801	1,497	1,599	1,703	1,750
% Ch	1.6%	-4.5%	1.8%	6.8%	8.4%	5.2%	6.3%	-13.1%	-16.9%	6.8%	6.5%	2.8%
TOTAL NONFARM EMPLOYMENT												
Idaho	538,098	558,578	568,031	568,041	572,532	588,039	611,687	638,046	654,575	668,922	683,842	704,322
% Ch	3.4%	3.8%	1.7%	0.0%	0.8%	2.7%	4.0%	4.3%	2.6%	2.2%	2.2%	3.0%
U.S. (Thousands)	128,992	131,792	131,832	130,342	129,993	131,424	133,459	135,340	136,614	138,359	140,471	142,481
% Ch	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.5%	1.4%	0.9%	1.3%	1.5%	1.4%
SELECTED INTEREST RATES												
Federal Funds	5.0%	6.2%	3.9%	1.7%	1.1%	1.3%	3.2%	5.0%	4.9%	4.5%	4.7%	4.8%
Bank Prime	8.0%	9.2%	6.9%	4.7%	4.1%	4.3%	6.2%	8.0%	7.9%	7.5%	7.7%	7.8%
Existing Home Mortgage	7.3%	8.0%	7.0%	6.5%	5.7%	5.7%	5.9%	6.6%	6.4%	6.5%	7.0%	7.1%
INFLATION												
GDP Price Deflator	1.4%	2.2%	2.4%	1.7%	2.1%	2.8%	3.0%	2.9%	1.9%	1.9%	1.9%	2.0%
Personal Cons Deflator	1.7%	2.5%	2.1%	1.4%	2.0%	2.6%	2.9%	2.8%	1.8%	2.0%	1.9%	1.9%
Consumer Price Index	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	1.7%	2.0%	1.8%	1.8%

**National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2006**

**IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2007**

	2006				2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	13,008	13,197	13,327	13,416	13,572	13,705	13,866	14,012	14,214	14,400	14,595	14,779
% Ch	9.0%	5.9%	4.0%	2.7%	4.7%	4.0%	4.8%	4.3%	5.9%	5.3%	5.5%	5.2%
2000 Chain-Weighted	11,316	11,388	11,451	11,486	11,548	11,616	11,699	11,772	11,881	11,978	12,079	12,176
% Ch	5.6%	2.6%	2.2%	1.2%	2.2%	2.3%	2.9%	2.5%	3.7%	3.3%	3.4%	3.2%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	42,861	43,587	44,507	45,633	46,366	47,007	47,696	48,376	49,061	49,840	50,579	51,383
% Ch	12.6%	6.9%	8.7%	10.5%	6.6%	5.6%	6.0%	5.8%	5.8%	6.5%	6.1%	6.5%
Idaho Nonfarm (Millions)	41,893	42,671	43,451	44,470	45,282	45,965	46,637	47,330	47,997	48,766	49,496	50,301
% Ch	12.6%	7.6%	7.5%	9.7%	7.5%	6.2%	6.0%	6.1%	5.8%	6.6%	6.1%	6.7%
U.S. (Billions)	10,721	10,807	10,954	11,107	11,251	11,365	11,489	11,623	11,781	11,954	12,124	12,302
% Ch	9.4%	3.2%	5.5%	5.7%	5.3%	4.1%	4.4%	4.7%	5.6%	6.0%	5.8%	6.0%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	37,781	38,043	38,615	39,650	40,047	40,401	40,782	41,165	41,539	42,008	42,420	42,894
% Ch	10.3%	2.8%	6.1%	11.2%	4.1%	3.6%	3.8%	3.8%	3.7%	4.6%	4.0%	4.5%
Idaho Nonfarm (Millions)	36,928	37,244	37,699	38,639	39,110	39,505	39,876	40,276	40,639	41,103	41,511	41,990
% Ch	10.4%	3.5%	5.0%	10.4%	5.0%	4.1%	3.8%	4.1%	3.7%	4.7%	4.0%	4.7%
U.S. (Billions)	9,451	9,433	9,504	9,651	9,717	9,768	9,823	9,890	9,975	10,075	10,168	10,269
% Ch	7.2%	-0.8%	3.1%	6.3%	2.8%	2.1%	2.3%	2.8%	3.5%	4.1%	3.7%	4.0%
HOUSING STARTS												
Idaho	23,062	21,427	18,567	20,197	20,223	20,043	20,022	19,995	19,963	19,846	19,701	19,547
% Ch	16.5%	-25.5%	-43.6%	40.0%	0.5%	-3.5%	-0.4%	-0.5%	-0.6%	-2.3%	-2.9%	-3.1%
U.S. (Millions)	2.123	1.873	1.720	1.488	1.484	1.480	1.500	1.522	1.548	1.585	1.614	1.648
% Ch	12.9%	-39.5%	-28.9%	-43.9%	-1.0%	-1.1%	5.3%	6.2%	6.9%	9.8%	7.6%	8.7%
TOTAL NONFARM EMPLOYMENT												
Idaho	631,588	636,917	639,430	644,249	648,352	652,574	656,799	660,576	663,846	667,310	670,543	673,989
% Ch	7.3%	3.4%	1.6%	3.0%	2.6%	2.6%	2.6%	2.3%	2.0%	2.1%	2.0%	2.1%
U.S. (Thousands)	134,722	135,128	135,577	135,934	136,272	136,418	136,687	137,079	137,593	138,104	138,613	139,126
% Ch	1.7%	1.2%	1.3%	1.1%	1.0%	0.4%	0.8%	1.2%	1.5%	1.5%	1.5%	1.5%
SELECTED INTEREST RATES												
Federal Funds	4.5%	4.9%	5.2%	5.2%	5.3%	5.1%	4.6%	4.5%	4.5%	4.5%	4.5%	4.5%
Bank Prime	7.4%	7.9%	8.3%	8.3%	8.3%	8.1%	7.6%	7.5%	7.5%	7.5%	7.5%	7.5%
Existing Home Mortgage	6.4%	6.6%	6.8%	6.5%	6.4%	6.4%	6.3%	6.3%	6.3%	6.4%	6.6%	6.8%
INFLATION												
GDP Price Deflator	3.3%	3.3%	1.8%	1.4%	2.5%	1.6%	1.8%	1.7%	2.1%	2.0%	2.0%	1.9%
Personal Cons Deflator	2.0%	4.0%	2.4%	-0.6%	2.4%	2.0%	2.1%	1.9%	2.0%	1.8%	2.0%	1.9%
Consumer Price Index	2.2%	5.0%	2.9%	-2.5%	3.0%	2.1%	2.2%	2.0%	2.1%	1.8%	1.9%	1.8%

**National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2006**

NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2006 through the Fourth Quarter of 2010

If the U.S. economy were graded on its recent performance, its report card would state that while it may not be failing, it could be doing better. The economy shifted into lower gear in the second half of last year, with real GDP advancing at a meager 2.6% annual rate in the second quarter followed by 2.0% in the third quarter and an estimated 1.2% rate in the last quarter. Real output should begin to accelerate this year, but at less than 3.0% growth it will remain well below its potential. The cooling housing market is partially to blame for this sub-par performance. The U.S. Department of Commerce reported real residential fixed investment tumbled 11.1% in the second quarter of 2006 and fell 18.7% in the third quarter. While some housing indicators suggest the industry is stabilizing, it will take a while to steady this ship. In fact, activity will continue to fall as builders attempt to get control of large unsold inventories. As a result, housing starts are expected to decline another 16.9% this year.

The impacts of the housing decline will be partially deflected by other economic factors. For example, while residential construction has suffered, nonresidential construction has thrived because of post-hurricane rebuilding, rising utilization rates, and falling office vacancy rates. Nonresidential construction will soften the blow from falling housing starts this year, but it will only provide temporary relief. Eventually, it will weaken under the weight of the ebbing housing sector. Falling oil prices should also help. The roughly 80-cent per gallon decline in gasoline prices since the summer of 2006 has operated like a tax cut for households worth \$96 billion, or 1.0% of disposable income. So far, households have been hesitant to spend this found money, probably because they fear gasoline prices will shoot up again. However, once they are convinced this will not happen, they will spend more freely.

Higher capacity utilization rates and the need to remain competitive are spurring business fixed investment. Orders for nondefense capital goods excluding aircraft are outstripping shipments, signaling rising order backlogs and solid business spending growth ahead. Another positive factor is trade. Improving economic growth abroad and the declining dollar point to strong exports. The dollar's value has dipped because the U.S. economy has weakened relative to other major economies. The greenback will come under pressure as foreign central banks raise interest rates. Thus, it is anticipated by the end of 2007 the euro will rise above \$1.40 and the yen will reach 105 per dollar.

Inflation has probably topped out, but it is still too high for the Federal Reserve's comfort. While falling gasoline prices helped keep consumer inflation below 2.0% this fall, core inflation (all items less food and energy) remain well above the central bank's 1-2% comfort zone. Cooler growth and slower housing costs increases should help core inflation drop below 2.0%. However, not even this will keep the Federal Reserve from worrying. It remains nervous about labor costs, since labor markets remain tight and productivity growth has slowed. However, the Federal Reserve is expected to lower interest rates three times in 2007, so its federal funds rate is 4.5% by the end of this year.

After this year, the economy is expected to move up to its potential. Real GDP should advance by at least 3.0% in each year after 2007. The housing inventory should be manageable, and housing starts should start to recover slowly. Nonfarm employment growth is expected to march to a 1.4% average annual cadence. At this pace, the civilian unemployment rate will eventually fall to 4.4% by 2010, which is comfortably full employment.

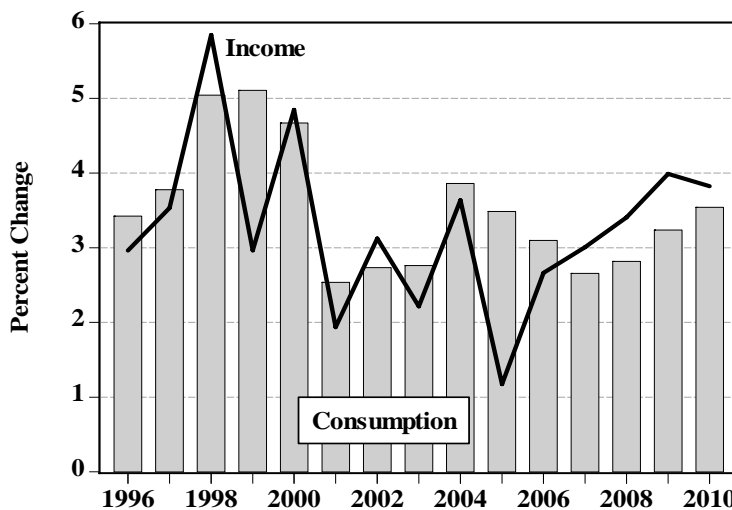
SELECTED NATIONAL ECONOMIC INDICATORS

Consumer Spending: The negative impact of the cooling housing market on consumer spending will be mitigated by steady job growth, rising wages, and lower gasoline prices. Although the U.S. civilian unemployment rate did inch up 0.1 percentage point from October 2006 to 4.5% in November, this rate is near its lowest level in five years and well below the 5.0% threshold considered to be full-employment. Other evidence of the labor market's strength is September's 203,000-increase in nonfarm jobs. These strong employment gains have tightened labor markets, which have fueled moderate wage gains that are outpacing inflation for the first time since 2003. Interestingly, these gains have not been as strong as initial estimates. For example, during last year's third quarter employment unit labor costs expanded 2.3%, which is

significantly lower than the original estimate of 3.8% growth. Falling gasoline prices will feel like a tax break to American consumers and contribute to the first inflation decline in a generation. These three factors are major contributors to the expected turnaround in real disposable income. After expanding a meager 1.2% in 2005, real disposable income is forecast to accelerate during most of the forecast period, growing 2.7% in 2006, 3.0% in 2007, 3.4% in 2008, 4.0% in 2009, and 3.4% in 2010. While consumers' income statements are improving, household balance statements are not likely to maintain the momentum experienced over the past few years. Specifically, thanks in large part to strong home price appreciation, U.S. household real net worth increased 4.7% in 2005. This rate will be the high-water mark for the foreseeable future as housing prices grow more slowly during the next few years. As a result, real net worth is forecast to rise 1.5% in 2006, 0.6% in 2007, 2.9% in 2008, 3.2% in 2009, and 4.5% in 2010. The impact of lower housing price appreciation will affect more than real net worth, however. It will also dampen real consumer spending because it will lead to cutbacks in spending on furniture, appliances, and other durable goods. In addition, consumer spending will be limited by disappearing financing sources. Home equity withdrawals, a funding source for home improvements and consumer spending, are likely to drop off in 2007. In addition, consumers are likely to proceed with caution after watching housing prices stall, or fall in some markets. One beneficiary of consumers' caution is the personal savings rate. After being negative since early 2005, it will eventually turn positive in late 2008. Real consumer spending is forecast to rise 3.1% in 2006, 2.7% in 2007, 2.8% in 2008, 3.2% in 2009, and 3.5% in 2010.

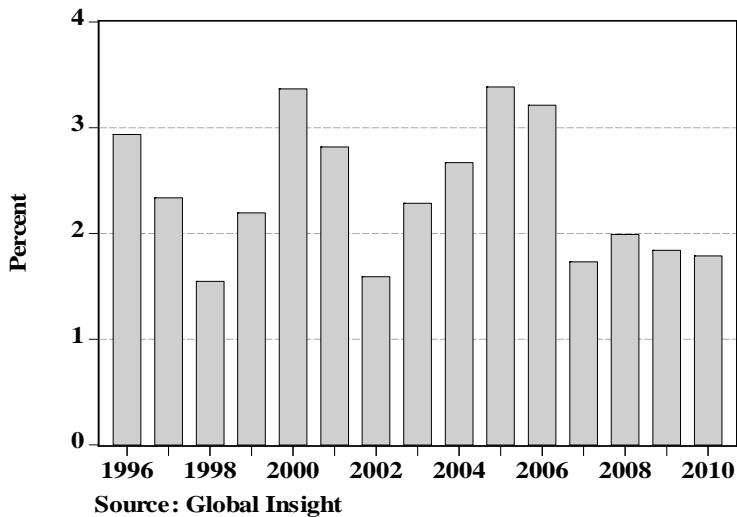
Inflation: Rising labor costs moved to the forefront of inflation watchers radar screens, as oil prices fell from last summer's peak. One noted analyst is Federal Reserve Chairman Ben Bernanke who observed labor costs "have been rising more quickly of late" and "part of this acceleration no doubt is current tightness in labor markets." His attention was well placed given labor costs' major role in driving core inflation (all items less food and energy). His conclusions, however, were based on data that overstated labor costs. For example, the third-quarter rise in unit labor costs was revised down from a 3.8% annual rate to a more moderate 2.3% rate. Furthermore, second-quarter unit labor costs, which were originally reported to have surged 5.3%, actually declined 2.4%. Year-over-year, third-quarter unit labor costs increased just 2.9%, which is significantly lower than the previous estimate of 5.3%. Looking ahead, it

U.S. Real Consumption and Disposable Income Growth



Source: Global Insight

Consumer Price Inflation

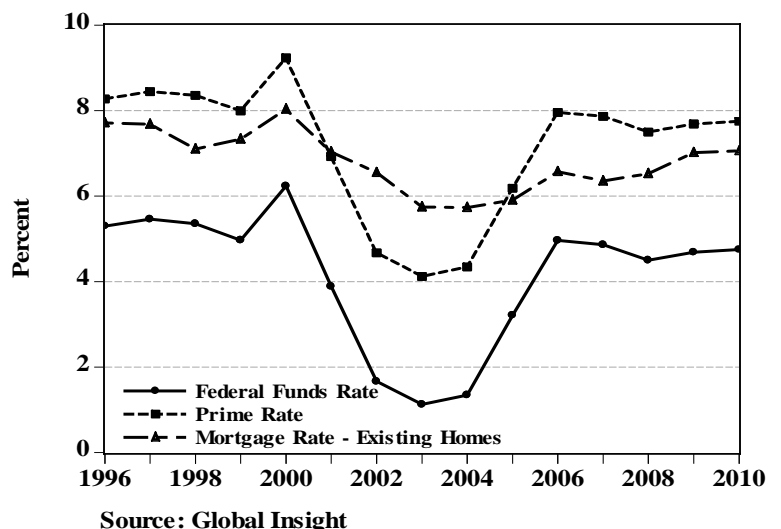


appears unit labor costs will grow more slowly than in 2006 over the forecast period. Specifically, unit labor costs are expected to increase 4.1% in 2006, 3.2% in 2007, 2.7% in 2008, 3.0% in 2009, and 3.2% in 2010. This outlook is based on the cooling economy and its attendant labor market pause and recovering labor productivity. Although labor prices have moved into focus, energy prices also remain in view. This should not come as a surprise given the multi-year run up in oil prices that peaked at over \$70 per barrel last summer. The good news is that oil prices should retreat from last year's apex and stabilize over the forecast period. However, oil prices will stabilize near the top end. Crude oil

prices are forecast to average \$64.44 per barrel in 2007, \$64.77 per barrel in 2008, \$63.88 per barrel in 2009, and \$63.40 per barrel in 2010. To put these prices in perspective, the price of oil averaged about \$20 per barrel during the 1990s and was about \$26 per barrel at the beginning of the current decade. Nonetheless, as a result of the better-behaved oil prices, the energy component of the consumer price index is expected to fall 2.9% this year, rise a modest 1.9% next year, and remain flat over the remaining forecast years. Overall inflation, as measured by the consumer price index, is anticipated to be 1.7% in 2007, 2.0% in 2008, and 1.8% in both 2009 and 2010.

Financial Markets: These days what the Federal Reserve says is having as big an impact as what it does. Indeed, the nation's central bank appears to be in wait-and-see mode. The Federal Reserve voted on December 12, 2006 to keep its federal funds rate at 5.25% for the fourth consecutive meeting. This action came as no surprise to Federal Reserve watchers because the decision to hold rates steady is consistent with its policy that began last summer. This policy is shaped by concerns of heating inflation and the cooling economy. Interestingly, the most anticipated part of the December meeting was not the federal interest rate target, but the brief statement released after the meeting. It reported the Federal Reserve continued to have concerns about inflation and the economy. It edged down its assessment of economic conditions compared with its October 25, 2006 statement. It now describes the cooling of the housing market as "substantial" and "recent indicators have been mixed." In light of these expressed concerns this forecast assumes the nation's central bank will hold the federal funds rate steady through early May 2007. After that time, it will begin to gradually decrease this bellwether interest rate. Specifically, the federal funds rate will decline in 25-basis point increments on May 9, 2007, followed by cuts on June 28 and August 7. As a result of these cuts, the federal funds rate will settle at 4.5% in the last quarter of 2007 and

Selected U.S. Interest Rates

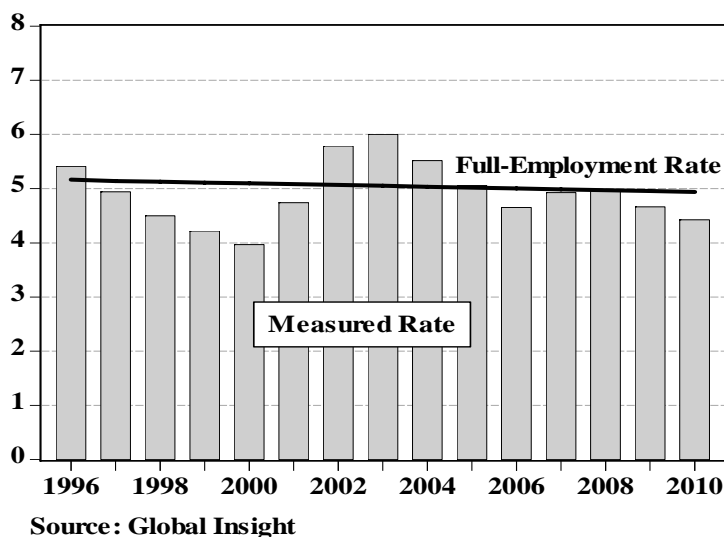


remain at that level through the first quarter of 2009. The federal funds rate is assumed to rise slightly thereafter, averaging just under 5.0%. The future course of the federal funds rate and other closely-watched interest rates are illustrated in the accompanying chart.

Government: The federal budget deficit declined from \$321 billion in federal fiscal year 2005 to \$248 billion in federal fiscal year 2006. The 2006 deficit was lowered in the final month of the year by a surge in revenues and some timing issues that pushed Medicare expenditures into fiscal year 2007. On an annual basis, federal receipts increased 11.8% in fiscal year 2006, while outlays rose 7.8%. After hitting its lowest point this decade, the federal budget deficit is expected to inch upwards through 2008 then fall gradually through 2010. Congress passed two measures with budget implications: the extension of the continuing resolution on discretionary spending and the Tax Relief and Health Care Act of 2006. The continuing resolution will have a dampening effect on fiscal 2007 spending. The tax relief legislation includes extensions of tax credits and deductions that either expired at the end of 2005 or would expire at the end of 2008. The provisions of this bill include the deduction for higher education expenses, the deduction of state and local sales taxes, a corporate research credit, a credit for alternative energy production, a credit for residential energy efficient property, and provisions for energy efficient buildings and new homes. The incoming Congress will have a new set of policy matters to consider. There are two major policy issues that are likely to receive attention before the next administration moves into the White House. Raising the federal minimum wage is a major economic policy initiative that is expected to move quickly through the Democratic Congress and is likely to be assented to by President Bush. Although the 41% increase from \$5.15 per hour to \$7.25 per hour is large, its ripple effect through the economy is likely to be smaller. First, the anticipated hike to \$7.25 per hour will cause the federal minimum wage to catch up with the existing minimum wage rates of about half the states. Second, due to tight labor markets, entry-level wage rates in many local areas are already above the proposed national minimum wage. Third, the Federal Reserve has given its nod for an increase, so it appears it will not unduly react to temporary upward blips in the employment cost index that would follow. Another pressing issue is the alternative minimum tax (AMT). The AMT will start biting middle-class taxpayers much harder, unless increased exemptions are extended beyond the end of 2006. This forecast assumes no permanent action will be taken on the AMT until after the 2008 election. Instead, the exemptions will be extended yearly until a permanent fix is enacted.

Employment: National nonfarm employment growth is expected to moderate in the short-term from its recent pace. It is estimated 1.9 million jobs were added in 2006, or about 157,000 jobs per month. The civilian unemployment rate fell to 4.6% from the previous year's 5.1% rate. What these annual statistics

U.S. Civilian Unemployment Rate



do not show is the labor market was already showing signs of slowing in late 2006. For example, during the second half of last year the monthly job pace had dropped to about 134,000 jobs per month, versus over 161,000 jobs per month during the first half of 2006. This trend is expected to continue early into this year. As a result, the U.S. civilian unemployment rate is expected to inch up above 5.0% in 2007. While the employment situation is softer in 2007 compared to 2006, it is not as bad as it may appear on the surface. First, the weaker employment situation is temporary. After falling below a one-percent annual pace during the first half of this year, nonfarm employment

should begin logging healthier gains during the second half of 2007. The fallout from this slower employment growth will hang on through the first half of 2008. However, even at its apex the unemployment rate is barely above the full-employment threshold. National nonfarm employment is forecast to expand 1.4% in 2006, 0.9% in 2007, 1.3% in 2008, 1.5% in 2009, and 1.4% in 2010. The forecasted civilian unemployment rate is 4.6% in 2006, 4.9% in 2007, 5.0% in 2008, 4.7% in 2009, and 4.4% in 2010. The minimum wage rises in three steps to \$7.25 per hour in this forecast. While the minimum wage debate has focused on demand, it could also increase supply. Teenage labor-force participation has slumped to 43.5%, from 52% in 2000. Since about a quarter of minimum wage earners in 2005 were teenagers, any labor-supply impact would show up in this category. It is estimated each percentage point increase in the teenage participation rate changes the unemployment rate 0.1 percentage point. For example, should the teenage participation rate recover half the ground lost since 2000 by rising 4.25 percentage points, the employment rate would increase almost 50 basis points.

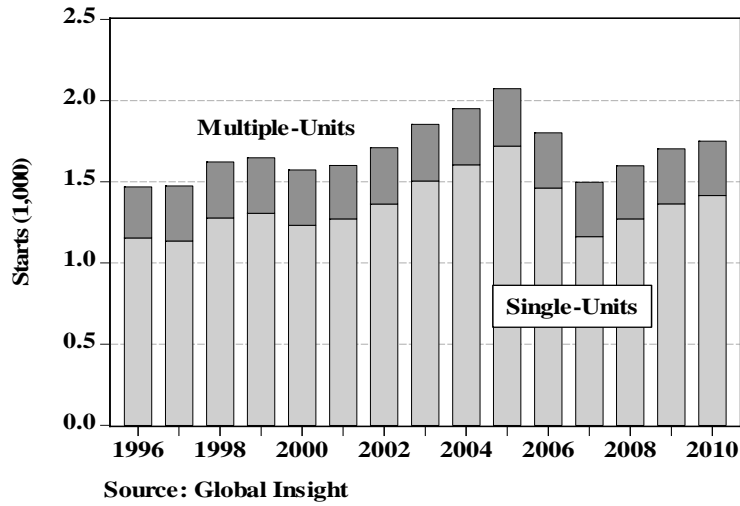
International: The improving trade picture will be a major plus to the economy over the forecast period. It is estimated real net exports (exports less imports) will contribute 0.8 percentage point to output growth during the fourth quarter of 2006—its strongest positive contribution in 10 years. On an annual basis, net exports in 2006 will be slightly higher than in 2005. However, these annual statistics mask last year's improvements. Keep in mind the real trade gap narrowed by close to \$30 billion from the first quarter of 2006 to the last quarter. Gains should continue through 2010, with the fastest improvement in the first couple of years.

This forecast reflects the positive influence of improved competitiveness and the sliding dollar on exports and dampening effect of slower U.S. consumer spending on imports. Until recently, the greenback was being pulled in opposite directions. The huge current-account deficit has been pushing down its value while the combination of stronger domestic growth and higher U.S. interest rates have buoyed the dollar. But this situation has changed because the U.S. economy has begun to slow and interest rates are expected to fall. As a result, all forces are exerting downward pressure on the dollar. Under these conditions the euro is expected to rise from around \$1.33 in late 2006 to \$1.40 by the end of this year. Over this same period the yen will rise from \$0.87 to \$0.95 and the Chinese renminbi will appreciate about 5%.

Housing: The housing industry should remain a short-term drag on the U.S. economy. It has been estimated residential construction shaved 1.4 percentage points off GDP growth in the fourth quarter of 2006 and will shave another 0.9 percentage point off output in 2007. Other indicators confirm this sector's weakness. Housing starts plunged 14.6% in October 2006 and the number of housing permits dropped 6.3% for its ninth straight month. Despite the spate of bad news, there are several factors that suggest housing demand is near its bottom. First, inventories of new and existing homes appear to be stabilizing. Second, sales of existing single-family homes seem stable. Third, applications to purchase homes have risen. These conditions are largely due to both falling mortgage interest rates and home prices. From June 2006 to last fall the 30-year fixed mortgage rate tracked by the Mortgage Bankers Association fell just over 80 basis points. In addition, the National Association of realtors reported the median price of an existing home dropped 3.4% between October 2005 and October 2006. Although there are reasons to believe demand is stabilizing, a housing turnaround is not imminent. The current



U.S. Housing Starts



housing inventory needs to be whittled down before starts and spending recover. With housing prices adjusting sluggishly to weak demand, new and existing home sales should rebound in this year's second half. These sales will help the inventory of new houses to peak later this year then gradually decline. Eventually housing starts will increase again, but at the pace experienced during the first years of this decade. Specifically, U.S. housing starts hit 2.1 million units in 2005—its most recent peak. The forecasted number of starts is 1.8 million in 2006, 1.5 million in 2007, 1.6 million in 2008, 1.7 million in 2009, and 1.8 million in 2010.

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2006 through the Fourth Quarter of 2010

Idaho's economy should end this decade on a higher note than when it started it. Battered by the high-tech industry's implosion near the turn of the millennium, Idaho nonfarm employment grew an average of 1.8% per year from 1999 through 2004, which was well below the average for the previous five years. The state's computer and electronics sector suffered the most serious reversal of fortune from the initial high-tech collapse and its aftershocks. This sector enjoyed robust growth and was a steady cog in the state's long economic expansion. For example, this sector's employment declined in just one year (1999) from 1991 to 2001. However, it has contracted in four of the last five years. While Idaho real personal income did not retreat during this decade's first five years, it did slow considerably. The one noticeable exception came in 2004 when, aided by a strong farm sector, real Idaho personal income jumped 7.0%.

Driven by its construction and services sectors, Idaho's economy picked up speed in 2005. The construction sector received the most attention due to its stellar performance. Idaho housing starts topped a long string of gains by growing 25.3% in 2005. As a result, the state's construction payroll expanded by an amazing 13.3% in that year, which translates to about 5,300 jobs. With construction experiencing such stellar growth, the services category's fine performance was often overlooked. It is true services employment advanced "just" 4.4% in 2006. However, given this sector's huge base, services employment increased by 11,723 jobs, which is more than two times greater than the construction sector gain. It is also worth noting both the state's logging and wood products and mining sectors expanded in 2005. Idaho real personal income grew 3.6% in 2005.

Early indicators suggest the economy grew faster in 2006 than in 2005. Idaho nonfarm employment is estimated to have increased 4.3%, which is slightly faster than the previous year's 4.0% rate. Once again, construction employment, which grew 16.6%, contributed heavily to the economy's success. Services employment advanced 4.2%, which was down slightly from 2005. After a long absence from the plus column, Idaho computer and electronics employment posted a 2.4% gain last year. The strong employment gains pushed total wage and salary payments up 10.2% in 2006. This increase helped Idaho real personal income swell 5.8%, which was its best performance since 2004.

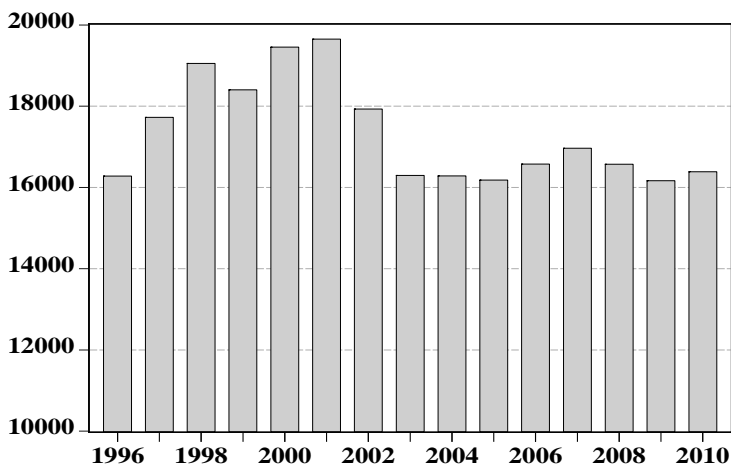
Looking ahead, total nonfarm employment growth is expected to slip below 3.0% in each year of the forecast period. This cooling reflects the anticipated declines in the construction sector. These decreases are more accurately described as a return to sustainable levels rather than a collapse. Specifically, after peaking at 52,634 jobs in 2006, Idaho construction employment will settle down to 50,242 jobs in 2010, which is still 5,000 more construction jobs than in 2005. Service employment growth is also expected to slow, but not retreat over the next few years. Overall, Idaho nonfarm employment is forecast to advance 2.5% annually, which is much faster than it grew earlier this decade. Idaho real personal income should also end the decade stronger than it started it. It is projected to increase 4.8% per year, which is higher than the 3.4% annual rate from 1999 through 2004.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: The state's largest manufacturing sector should experience relatively stable employment levels over the forecast period. While future job growth rates are expected to be far below those experienced in the 1990s, they will be an improvement over the declines this industry suffered earlier this decade. Idaho computer and electronics manufacturing was an important source for jobs during the state's protracted economic expansion, averaging 7.0% growth from 1991 to 1999. The momentum from this growth help it minimize calamities from the lows of the business cycle, which helped it peak at nearly 21,000 jobs in 2001.

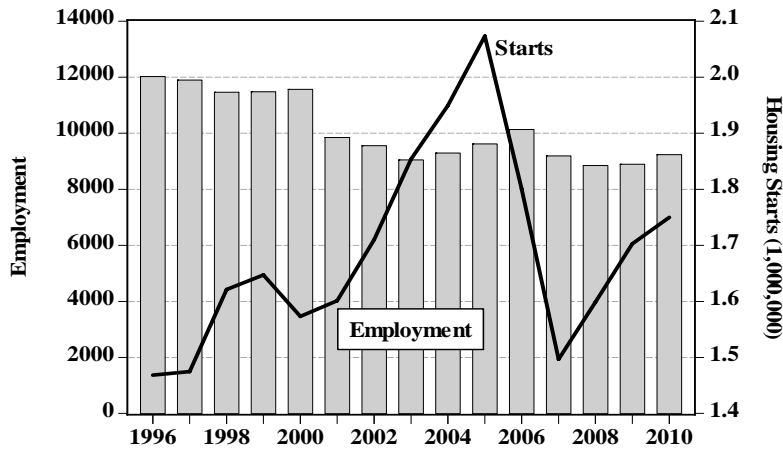
Unfortunately, this sector was not able to dodge the implosion of the high-tech bubble. The victims of the slowdown included some of this sector's highest flyers. Jabil Circuit halted a planned expansion and eventually closed its doors after customer orders evaporated. In 2001, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard also reduced their staffs. Despite these setbacks, employment expanded 1% in 2001. Unfortunately, it would be the last year-over-year job gain for several years. Employment plunged 8.8% in 2002. Micron Technology, the state's largest private employer, eventually succumbed to the high-tech downturn and reduced its Idaho workforce by about 1,000 in early 2003, and the state's computer electronics sector's employment base shrank another 9.1% in 2003. This sector's back-to-back job declines resulted in 3,400 fewer jobs in 2003 compared to 2001. Unfortunately, it has not experienced a quick turnaround. In fact, the recovery has been tenuous, with employment virtually unchanged in 2004 and 2005. Employment did grow a healthy 2.4% in 2006, however. It is forecast to rise to about 17,000 jobs this year, which is its high-water mark over the next few years. Indeed after this year, employment is forecast to slide to about 16,400 by 2010.

**Idaho Computer and Electronic Products
Employment**



Logging and Wood Products: Idaho's lumber and wood products sector will retreat from its 2006 peak over the forecast period due to the cooling U.S. housing market. This sector has benefited from the nation's recent housing boom. The accompanying strong demand for wood products has bolstered local employment levels, bucking the negative supply trends that have suppressed this sector for several years. Interestingly, Idaho's lumber and wood products sector was a latecomer to the housing party. National housing starts began heating up in 2001 and grew by at least 5% annually from 2002 through 2005. Looked at another way, the total number of U.S. housing starts soared from 1.57 million units in 2000 to 2.07 million units in 2005. Wood production rose about 4.0% over this same period. Despite these positive indicators, Idaho lumber and wood product employment did not increase until 2004. Unfortunately, job gains have been the exception instead of the rule for this sector. Supply factors have determined this sector's past performance and will determine its fate. The biggest challenge Idaho's lumber and wood products sector faces is the dwindling public forests timber supply. The U.S. Forest Service estimates over the ten-year period from 1994 to 2004 the harvest from Idaho national forests fell by two-thirds, from 429.7 million board feet to 143.3 million board feet. This decline represents a significant resource loss to the state. Specifically, national forests' share of Idaho's timber harvest shrank from 28.5% in 1994 to 12.3% in 2004. This decline has been particularly hard on the state's

Idaho Wood Product Employment and U.S. Housing Starts

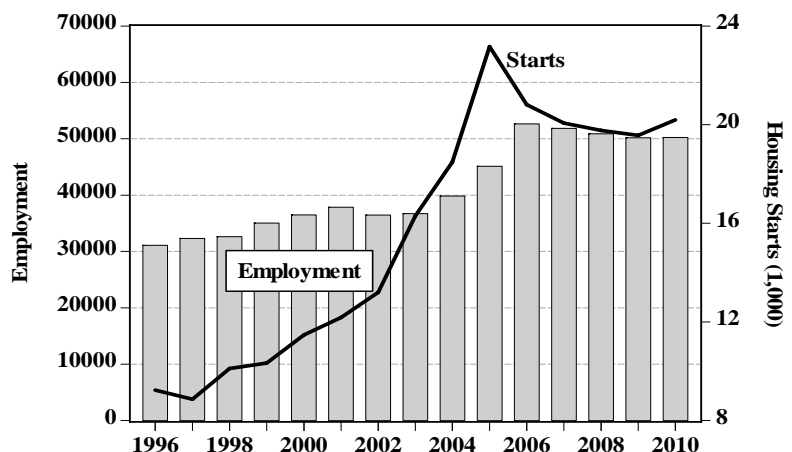


older, less efficient mills. Approximately 125 jobs were lost when Boise Cascade shuttered its Cascade, Idaho mill in 2001. About 250 jobs were lost in 2002 when the company's Emmett, Idaho mill closed. Potlatch ceased operations at its Jaype Mill near Pierce, a move that cost about 215 jobs. Louisiana-Pacific closed its Bonners Ferry mill, putting about 140 people out of work. These closings have increased the lumber and wood products sector's overall efficiency, which suggest fewer workers will be needed in the future. Despite the industry's downsizing,

excess capacity remains a challenge. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. These supply factors will dominate this sector's outlook as the housing sector recedes. Unfortunately, there is evidence this is already taking place (see the national housing sector review). Closer to home, the Random Length's lumber composite index for November 2006 was down 23.4% from the previous November and its structural panel composite was off 26.9%. It is anticipated U.S. housing starts will fall to 1.50 million units this year then gradually expand to 1.75 million in 2010. Over this same time period, U.S. wood products production is expected to fall and remain below its 2002 benchmark. After peaking at 10,134 jobs in 2006, Idaho lumber and wood products employment is projected to decline to a nadir of 8,891 jobs in 2008 before recovering to 9,238 jobs in 2010.

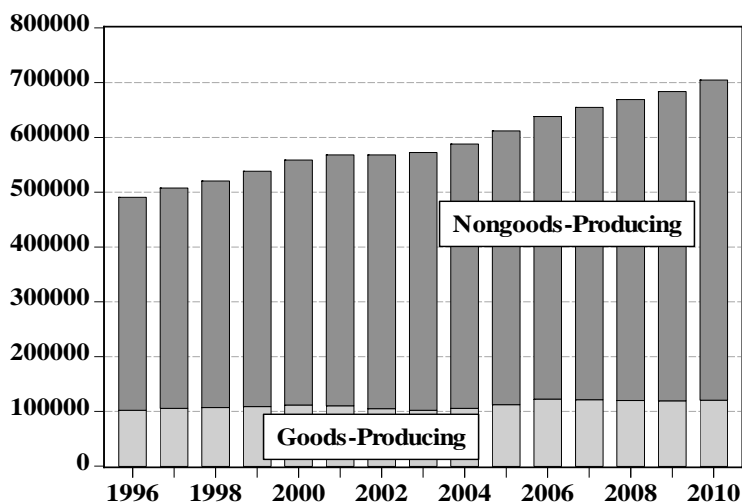
Construction: Idaho's high-flying construction sector should cruise closer to the ground over the next few years as the red-hot housing market cools. The industry's recent performance has been nothing short of extraordinary. Idaho housing starts soared from under 9,000 units in 1997 to a peak of 23,200 units in 2005. It slid to an estimated 20,800 units in 2006, which is still high compared to historical levels. Thanks to the strong housing starts, Idaho construction employment grew an average of 4.3% per year, which was nearly twice as fast as overall nonfarm growth. These statistics show how the construction sector has been a major force propelling the state's economy. Most local economy watchers agree construction cannot maintain its recent pace, and this raised fears that the coming correction may be severe. These concerns are legitimate. A hot market caused Idaho housing starts to peak at over 12,600 units in 1977, which was a threefold increase from 1970's 4,000 housing units. Three years later there were less than 6,000 housing starts in the state, and housing

Idaho Construction Employment and Housing Starts



starts remained below 6,000 units for the next decade. However, there are several reasons why a correction of this magnitude is not expected to occur over the forecast period. First, interest rates and population growth are expected to change gradually, giving the construction industry ample time to adjust. Second, although the Idaho housing sector has been robust, there does not appear to be a serious excess inventory of properties in the state. Third, Idaho could benefit from a boom in second homes. Fourth, nonresidential construction and alterations and repairs should remain healthy. Nonresidential construction typically follows residential construction as the businesses follow the population. Repairs and alterations still grow after a hot housing market cools because purchasers of existing homes usually take up to three years to remodel after purchasing a home. Indeed, in the current forecast Idaho construction employment expands in 2006 even though housing starts decline. The number of Idaho housing starts is forecast to recede from 20,813 units in 2006 to 20,195 units in 2010. Idaho construction employment is projected to ease from a high of 52,634 jobs in 2006 to 50,242 jobs in 2010.

Idaho Nonfarm Employment



Nongoods-Producing Industries:

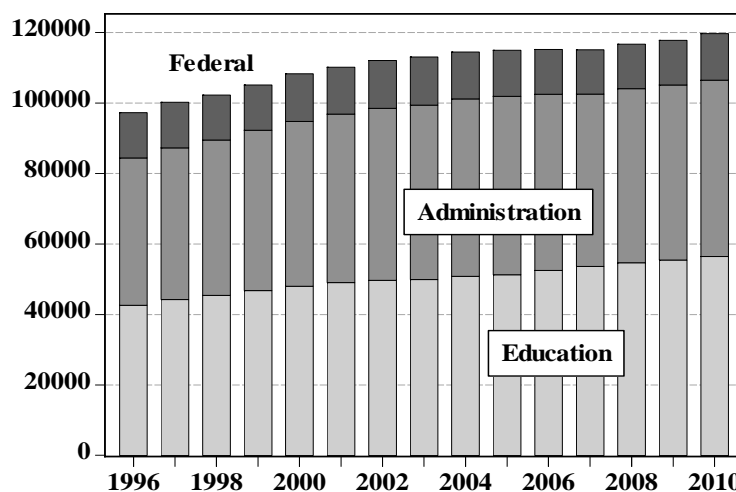
Idaho's largest private sector will contribute most of the state's employment growth over the forecast period. It is estimated the nongoods-producing sector accounted for about two-thirds of all new jobs in 2006. This sector benefits from the huge job bases of both services and trade. The former accounts for 46% of total nonfarm employment while the latter counts for 17% of employment. The services category consists of information services; financial activities, transportation, warehousing, and utilities; professional and business services; education and health services;

leisure and hospitality services; and other services. Trade is divided into retail and wholesale categories. Not only is employment in services greater than trade employment, it has also grown faster than trade, advancing an average of 2.4% annually over the last five years versus 1.9% for trade. One of the services sector's star performers is professional and business services. This category grew an impressive 6.1% in 2006. Part of last year's strong showing reflects a reclassification of employees from the information services category to the professional and business services category in the first quarter of 2006. Looking forward, this category's employment should expand an average of 3.5% per year. Other strong performers include education and health services and leisure and hospitality services. An interesting trait of the former is that it is driven more by demographics than economics. As such, it is relatively immune to business cycle swings. This category should add jobs at a 3.6% average annual pace over the forecast period. The leisure and hospitality category will expand at virtually the same rate. Overall services employment is projected to increase 3.6% per year. The trade sector's employment should grow an average of 4.2% per year.

Government: Idaho's state and local government employment's future should look much like its past. That is, this sector's employment is forecast to rise slowly over the next few years. The number of state and local government jobs has grown from 75,900 in 1992 to an estimated 102,496 in 2006, or an average of 2.2% per year. This growth was largely driven by the need to meet the demands of the state's expanding population. Driven by a flood of newcomers, Idaho's population expanded nearly 30% from

1990 to 2000. Although population growth cooled in the early years of the current decade, it has recently accelerated. The U.S. Census Bureau estimates the Gem State's population jumped about 2.6% in 2006, making it the nation's third fastest growing state behind Arizona and Nevada. The Gem State's population is forecast to grow more than 2.0% per year over the forecast period, which is more than twice as fast as the nation's population. Constant population pressures will cause government payrolls to rise over the next few years to 106,468 jobs by 2010. The lion's share of growth will be education related. Traditionally, state and local employment has grown much faster than federal employment. In fact, lately the former has been expanding while the latter has been contracting. Federal government employment has been falling because, unlike state and local government employment, Idaho federal government employment is driven more by budget decisions made in the nation's capital than by local population growth. It is anticipated real federal government purchases will grow slowly over the next four years. As a result, Idaho federal government employment should remain relatively flat. Idaho federal government employment is forecast to hover near 12,600 jobs during most of the forecast period. However, it jumps to around 13,200 in 2010 when the nation conducts its next census.

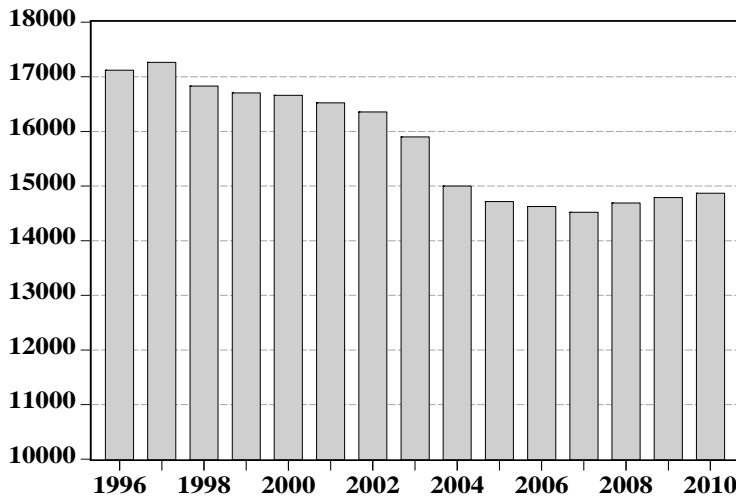
Idaho Government Employment



Mining and Chemicals: The Gem State's mining sector enjoyed a four-year run of job gains from 2002 to 2006. Over this period the number of mining jobs increased from 1,758 to 2,363. This showing can be characterized as a welcome reprieve from a declining trend, instead of a return to more prosperous times. Indeed, current data suggest mining employment peaked at 2,416 in the second quarter of 2006. This peak is significantly lower than its previous employment peak of 3,115 that occurred in the first quarter of 1997. The lower peak is consistent with a trend in which an employment peak is lower than its predecessor. This is apparent in the annual employment data. For example, Idaho mining employment peaked at 5,200 jobs in 1981. The next peak occurred in 1990, but it was 3,900 jobs. A peak of 3,000 jobs followed in 1997. Idaho mining employment is forecast to fall over the next few years, from 2,363 in 2006 to 1,866 in 2010. Like the state's mining sector, Idaho's chemical sector has experienced employment gains recently. These increases were a welcome relief from the pummeling this sector experienced early in the decade. Most notably Astaris (formerly FMC) shut down its elemental phosphorous plant located just outside of Pocatello in 2002. Chemical employment declined over 17% that year. It shrank another 4.9% in 2003. This sector's recovery began slowly but accelerated over time. It posted its biggest annual gain in 2006, due in large part to the reclassification of retail workers as chemical workers. This reclassification occurred at the start of last year and explains why chemical employment climbed at a 37.5% annual rate during the first quarter of 2006. It appears this sector has another year of growth in it. Chemical employment should reach 2,142 this year then gradually fall to 1,961 in 2010.

Food Processing: Idaho's food processing sector remains the state's second largest manufacturing employer despite having suffered nine straight years of job losses. With an estimated 14,623 employees in 2006, only the computer and electronics sector is larger. The food processing sector has experienced a

Idaho Food Processing Employment



rash of calamities. For example, nearly 360 jobs were lost when unfavorable business conditions caused the J.R. Simplot Company to close its Nampa meat packing plant in the fall of 2003. In addition, the J.R. Simplot Company shuttered its Heyburn potato processing plant that was built in 1960 and since then had run continuously. More recently, the Swift and Company beef processing plant fell victim to the embargo of Canadian beef imports into the U.S. Concerns over mad cow disease restrict imports to animals under 30 months old. The Nampa plant processed older animals and was not able to get enough animals to keep

operations viable. About 400 jobs were lost when the company permanently closed the plant. These temporary setbacks do not mean this industry is in trouble. One of this sector's greatest strengths is its ability to adapt to changes, and this will keep the death knell from sounding. Although some plants have closed, new plants are opening. Gossner Foods, Inc. has opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant's employment should climb to twice that many jobs in five years, making it one of Elmore County's largest employers. After several years of losses, Idaho food processing employment is expected to stabilize near 15,000 jobs.

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its December 2006 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 3.3% in 2006, 2.2% in 2007, 3.2% in 2008, 3.4% in 2009, and 3.3% in 2010;
- U.S. nonfarm employment grows 1.4% in 2006, 0.9% in 2007, 1.3% in 2008, 1.5% in 2009, and 1.4% in 2010;
- the annual U.S. civilian unemployment rate is no higher than 5.0% through 2010;
- consumer inflation is 3.2% in 2006, 1.7% in 2007, 2.0% in 2008, and 1.8% in both 2009 and 2010;
- the current account deficit is \$873 billion in 2006, \$816 billion in 2007, \$788 billion in 2008, \$814 billion in 2009, and \$831 billion in 2010; and
- the federal unified budget deficit is \$248 billion in 2006, \$280 billion in 2007, \$287 billion in 2008, \$267 billion in 2009, and \$255 billion in 2010.

OPTIMISTIC SCENARIO

Global Insight has assigned its *Optimistic Scenario* a 20% probability of occurrence. Seven assumptions distinguish this scenario from the baseline. First, total factor productivity is stronger. Underlying this assumption is the belief the information-driven technology boom will continue. Second, foreign economic growth is stronger, which causes U.S. exports to grow faster in most years in this scenario. Third, the U.S. dollar is stronger in this scenario. Fourth, business investment is stronger. This is not hard to imagine because the current level of business spending is below the historical average at a time when businesses are running out of industrial capacity. Fifth, the federal budget deficit is lower thanks to higher revenues and lower federal transfer payments. Also contributing to the smaller deficit is lower interest payments. Sixth, better job growth, lower mortgage interest rates, and higher consumer confidence lead to stronger housing starts. Seventh, the *Optimistic Scenario* assumes energy prices are lower than in the baseline.

These assumptions produce a rosier forecast than the baseline. Real GDP is stronger in 2007, 2.7% versus 2.2%. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and the higher productivity gains. The lower inflation allows the Federal Reserve to keep its federal funds rate below the *Baseline Scenario's* rate. Job growth is also stronger, which keeps the unemployment rate below its baseline counterpart over the forecast period.

Although the U.S. economic outlook clearly improves under the assumptions of the *Optimistic Scenario*, it creates mixed results for the Idaho economy. Namely, Idaho's economy performs stronger in the early years of the forecast compared to the baseline, but this advantage disappears over time as stronger productivity growth suppresses both employment and wage gains. The effects are apparent in both the Idaho employment and income data. Idaho nonfarm employment goes from having about 2,100 more jobs in 2007 compared to its baseline counterpart to having about 1,400 fewer jobs by 2010. Idaho real personal income displays a similar pattern. It is \$112 million higher in 2007, but is nearly \$300 million lower than in the *Baseline Scenario* by 2010.

IDAHO ECONOMIC FORECAST

BASELINE AND ALTERNATIVE FORECASTS

JANUARY 2007

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
GDP (BILLIONS)												
Current \$	13,789	14,497	15,285	16,103	13,819	14,560	15,375	16,193	13,657	14,286	15,213	16,151
% Ch	4.2%	5.1%	5.4%	5.4%	4.4%	5.4%	5.6%	5.3%	3.2%	4.6%	6.5%	6.2%
2000 Chain-Weighted	11,659	12,028	12,441	12,854	11,721	12,191	12,694	13,174	11,511	11,710	12,077	12,403
% Ch	2.2%	3.2%	3.4%	3.3%	2.7%	4.0%	4.1%	3.8%	0.9%	1.7%	3.1%	2.7%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	47,361	50,216	53,509	57,370	47,155	49,510	52,372	55,720	48,380	51,785	55,755	60,934
% Ch	7.3%	6.0%	6.6%	7.2%	6.2%	5.0%	5.8%	6.4%	8.8%	7.0%	7.7%	9.3%
U.S. (Billions)	11,432	12,040	12,775	13,550	11,442	12,057	12,807	13,569	11,446	12,003	12,805	13,707
% Ch	4.9%	5.3%	6.1%	6.1%	5.0%	5.4%	6.2%	5.9%	5.0%	4.9%	6.7%	7.0%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	40,599	42,215	44,135	46,444	40,711	42,175	43,990	46,145	41,032	42,507	44,342	46,973
% Ch	5.4%	4.0%	4.5%	5.2%	5.0%	3.6%	4.3%	4.9%	5.8%	3.6%	4.3%	5.9%
U.S. (Billions)	9,800	10,122	10,537	10,969	9,878	10,270	10,757	11,237	9,708	9,853	10,184	10,568
% Ch	3.1%	3.3%	4.1%	4.1%	3.9%	4.0%	4.7%	4.5%	2.1%	1.5%	3.4%	3.8%
TOTAL NONFARM EMPLOYMENT												
Idaho	654,575	668,922	683,842	704,322	656,663	670,715	684,345	702,906	656,993	667,688	680,578	700,975
% Ch	2.6%	2.2%	2.2%	3.0%	2.7%	2.1%	2.0%	2.7%	2.7%	1.6%	1.9%	3.0%
U.S. (Thousands)	136,614	138,359	140,471	142,481	137,009	139,369	142,121	144,498	135,844	136,226	138,024	140,124
% Ch	0.9%	1.3%	1.5%	1.4%	1.2%	1.7%	2.0%	1.7%	0.4%	0.3%	1.3%	1.5%
GOODS-PRODUCING SECTOR												
Idaho	121,399	120,018	119,385	120,347	121,655	121,102	119,972	120,072	120,251	116,461	116,911	117,030
% Ch	-1.0%	-1.1%	-0.5%	0.8%	-0.8%	-0.5%	-0.9%	0.1%	-1.9%	-3.2%	0.4%	0.1%
U.S. (Thousands)	22,046	21,932	22,011	22,190	22,045	22,112	22,402	22,728	21,923	21,185	21,050	21,111
% Ch	-1.5%	-0.5%	0.4%	0.8%	-1.5%	0.3%	1.3%	1.5%	-2.1%	-3.4%	-0.6%	0.3%
NONGOODS-PRODUCING SECTOR												
Idaho	533,176	548,904	564,457	583,976	535,008	549,613	564,373	582,834	536,742	551,227	563,667	583,944
% Ch	3.4%	2.9%	2.8%	3.5%	3.5%	2.7%	2.7%	3.3%	3.9%	2.7%	2.3%	3.6%
U.S. (Thousands)	114,568	116,427	118,460	120,290	114,964	117,257	119,719	121,770	113,921	115,041	116,975	119,013
% Ch	1.4%	1.6%	1.7%	1.5%	1.8%	2.0%	2.1%	1.7%	0.9%	1.0%	1.7%	1.7%
SELECTED INTEREST RATES												
Federal Funds	4.9%	4.5%	4.7%	4.8%	4.7%	4.3%	4.5%	4.5%	7.0%	7.1%	6.1%	5.7%
Bank Prime	7.9%	7.5%	7.7%	7.8%	7.7%	7.3%	7.5%	7.5%	10.0%	10.1%	9.1%	8.7%
Existing Home Mortgage	6.4%	6.5%	7.0%	7.1%	6.2%	6.2%	6.7%	6.7%	7.4%	8.1%	7.9%	7.9%
INFLATION												
GDP Price Deflator	1.9%	1.9%	1.9%	2.0%	1.6%	1.3%	1.4%	1.5%	2.3%	2.8%	3.3%	3.4%
Personal Cons Deflator	1.8%	2.0%	1.9%	1.9%	1.1%	1.3%	1.4%	1.4%	2.9%	3.3%	3.2%	3.2%
Consumer Price Index	1.7%	2.0%	1.8%	1.8%	0.9%	1.4%	1.4%	1.3%	2.7%	3.0%	2.9%	3.0%

Forecast Begins the **THIRD** Quarter of 2006

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 20% probability of occurrence. In this scenario, a key lever in the forecast is core inflation is higher than in the baseline case. One of the reasons for the price acceleration is this alternative assumes there is less spare capacity in the world. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. This alternative forecast also assumes the dollar weakens as foreign investors flee the greenback over concerns of the huge U.S. trade deficit. The Federal Reserve raises interest rates more steeply in this alternative compared to the baseline. Despite this more aggressive stance, both the bond and stock markets slip on signs the Federal Reserve may have responded too slowly to rising inflation. Both of these factors point to higher interest rates than in the baseline. The rising interest rates deepen the housing downturn. The Federal Reserve may concede the round to inflation, but not the match, and it continues to raise rates in order to stop inflation.

Consumer confidence suffers from the higher interest rates and persistently high energy prices. Consumer confidence is dented further under the combined weight of slow job growth and increasing debt loads. As a result of these combined concerns, consumers reel in their discretionary spending, which causes the economy to suffer. The economy does not sink into a recession in this alternative, but merely fails to come as close to its potential as in the baseline.

Idaho nonfarm employment increases slightly slower in the *Pessimistic Scenario*, averaging 2.3% annual growth versus the *Baseline Scenario's* 2.5% pace. As a result of this dampened growth, Idaho nonfarm employment in 2010 is about 3,500 lower than its baseline counterpart. The state's goods-producing sector accounts for virtually the entire gap. However, Idaho real personal income fares better in the *Optimistic Scenario* thanks to strong showings in 2007 and 2010. As a result, Idaho real personal income is \$529 million higher than in the baseline case. This gap partially results from stronger wage growth that stems from the weaker productivity growth. But wages do not explain the entire difference. The dividends, interest, and rent income portion of personal income is also higher thanks to elevated interest rates.